

IDR 11/2018

August 9, 2018

Re: Management Discussion and Analysis (MD&A) for the Second Quarter of 2018

To: The President
The Stock Exchange of Thailand

CP All Public Company Limited (the Company or CPALL) would like to clarify operating results for the second quarter of 2018 which the Company and its subsidiaries reported net profit of Baht 4,779 million. The main reasons are as follows:

Total Revenue

In 2Q18, the Company and its subsidiaries' total revenue were Baht 129,706 million. An increase of 7.5 percent from the same period last year was mainly driven by higher sales revenue and service income of convenience store business and cash & carry business under the name "Siam Makro". Resilient revenue growth was a result of the Company's strategy to remain vigorous in store expansion to correspond to the change in consumer lifestyle, to serve convenience to all communities and to offer products and services that accommodate to customer demand.

Gross Profit

The Company and its subsidiaries' gross profit in the second quarter of 2018 was Baht 27,406 million, increased by 6.2 percent from the same period last year. Gross margin to sales and service income in the consolidated financial statement was lower from 22.2 percent in 2Q17 to 21.9 percent in 2Q18, mainly from lower gross margin YoY of CVS business. In 2Q18, products that posted high sales growth such as cigarette, alcohol and online game cards had lower gross margin than other products; resulting in a decline in gross margin YoY. Meanwhile, Siam Makro was able to retain its decent gross margin in 2Q18.

Distribution Costs and Administrative Expenses

In 2Q18, the Company and its subsidiaries' distribution costs and administrative expenses breakdown is as follows:

| Costs and Expenses | 2Q18 |
|--|--------|
| Personnel | 27.6% |
| Store management fees | 19.7% |
| Rental and depreciation and amortisation | 17.8% |
| Advertising and sale promotion | 12.9% |
| Utilities and others | 22.1% |
| Total | 100.0% |

The Company and its subsidiaries' distribution costs and administrative expenses rose to Baht 24,608 million, increased by 8.1 percent from 2Q17. In 2Q18, distribution costs were Baht 20,771 million, increased by 8.5 percent YoY mainly related to domestic store expansion of both convenience store and cash & carry businesses and international expansion of Siam Makro, as well as impact from the minimum wage increase which was effective from 1 April 2018 onwards. Nevertheless, administrative expenses rose to Baht 3,834 million, or 6.7 percent YoY as the Company and its subsidiaries' controlled expenses to grow lower than total revenue growth.

Profit Before Interest and Tax Expenses, and Net Profit

In 2Q18, profit before interest and tax expenses was Baht 7,589 million, up 0.4 percent YoY mainly from higher distribution costs. Net profit was Baht 4,779 million in 2Q18, increased by 2.8 percent from the same period last year. Earnings per share reported in the consolidated financial statements in 2Q18 was Baht 0.50. The improvement in net profit was mainly driven by decent business operations as well as no record of interest expenses on perpetual debentures in statement of income.

Moreover, from 2Q18 onwards the Company has recognised a decrease in ownership interest in Siam Makro, from 97.9 percent to 93.1 percent, following the sale of 4.8 percent of its interest on 28 March 2018.

Operating Results for the First Half of 2018

In 1H18, the Company and its subsidiaries' total revenues amounted to Baht 257,752 million, increasing 8.2 percent from the same period of last year as mainly driven by 8.5 percent growth in sales revenue and services income. Net profit was Baht 10,196 million, up by 8.3 percent YoY. Earnings per share reported in the consolidated financial statements were Baht 1.08 in 1H18.

Business Segment Performance

In 1H18, total revenue before elimination contributed from major businesses were, (1) convenience store business and other businesses accounted for 66 percent and (2) Siam Makro cash & carry business accounted for 34 percent. Revenue contribution from (1) CVS business and other businesses increased YoY due to higher sales revenue and service income growth than that of (2) Siam Makro during the period.

Profit before tax before elimination contributed from major businesses in 1H18 were, (1) convenience store business and other businesses accounted for 82 percent and (2) Siam Makro cash & carry business accounted for 18 percent. Profit before tax contribution from (1) CVS business and other businesses rose YoY on the back of higher operating profit growth than (2) Siam Makro as well as gain on sale of investment in Siam Makro booked in 1Q18.

Operating Results of the Convenience Store Business

In order to move toward our long-term goal of having 13,000 stores by 2021, new stores expansion has progressed on track during the quarter. In 2Q18, the Company has successfully opened 227 new stores in all types including corporate, store business partner (SBP) and sub-area. At the end of 2Q18, CPALL operated 10,760 stores nationwide, which can be broken down into:

- (1) 4,850 corporate stores (44 percent of total stores), or a net new store of 113 stores,
- (2) 5,910 SBP and sub-area stores (56 percent of total stores), or a net new store of 114 stores

Majority of our stores were stand-alone, making 86 percent of total stores, while the others were in PTT gas stations.

As mainly driven by dynamic store expansion and successful product strategy, in 2Q18 the convenience store business reported revenue from sales and services of Baht 77,073 million, increased by Baht 7,696 million or 11.1 percent YoY. In 2Q18, convenience store business has retained its positive SSSG at 3.9 percent and posted average sales of Baht 82,036 per store on a daily basis in this quarter. In 2Q18, average spending per ticket was approximately at Baht 69 and there were 1,186 customer visits per store per day.

In 2Q18, sales of both food and non-food categories (excluding phone cards) grew at a decent level YoY. In 2Q18, sales of non-food products (excluding phone cards) outpaced sales of food products due to price increase of cigarette. As a result, food products sales mix accounted for 70.4 percent of total sales, while non-food products (excluding phone cards) accounted for 29.6 percent in 2Q18.

In 2Q18 gross profit amounted to Baht 21,314 million, increased by Baht 1,698 million or 8.7 percent YoY. Gross margin declined to 27.7 percent in 2Q18 from 28.3 percent in 2Q17, mainly because products that posted high sales growth in 2Q18 such as cigarette, alcohol and online game cards had lower gross margin than other products. Meanwhile, service income from mobile phone's prepaid top-up cards also continued on a declining trend.

Meantime, other income rose to Baht 4,623 million in 2Q18, up Baht 181 million or 4.1 percent YoY largely from higher sales promotion income from co-promotion campaigns with suppliers to boost sales. In addition, the Company recognized dividend income from subsidiaries amount Baht 4,391 million, rose by Baht 1,246 million or 39.6 percent YoY.

In 2Q18, distribution costs and administrative expenses were Baht 20,764 million, increased by Baht 1,823 million or 9.6 percent YoY, mainly owing to higher distribution costs in related to new store expansions, higher utility expenses due to higher electricity's unit price YoY, as well as impact from the minimum wage increase. In the meantime, other costs and expenses were efficiently managed.

In 2Q18, profit before finance costs and income tax expense of the convenience store business was Baht 9,680 million, increased by 16.0 percent from 2Q17, while net profit was Baht 7,473 million, increased by 26.0 percent YoY. The improvement in net profit was mainly driven from decent business operation, higher dividend income from subsidiaries and no record of interest expenses on perpetual debentures in statement of income.

For 1H18, convenience store business posted total revenues of Baht 165,189 million, increasing 12.6 percent from the same period of last year as mainly driven by 11.8 percent growth in sales revenue and services income. Meanwhile, net profit was Baht 11,454 million, increased by 32.9 percent from the same period of last year.

As at June 30, 2018, the Company and its subsidiaries' net debt to adjusted equity according to definition of bond covenants was at 1.28 times, decreased from 2.22 times in the same period of last year. Lower net debt to equity was mainly driven by larger shareholders' equity base from an increase in profit from business operation, repayment of matured ordinary debentures, and issuance of subordinated perpetual debentures in 2016 and 2017. The Company is obligated to comply with bond covenants with net debt to equity ratio calculated based on the consolidated financial statements for the period ended 31 December of each year, which covenants is not exceeding 2.0 times in 2018 onwards.

Management Outlook for Convenience Store Business in 2018

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| Store expansion | Following our plan to reach 13,000 stores by 2021, the Company will remain active in our new store rollouts following the growth of communities, various infrastructures, tourist destinations and other high potential areas in order to serve convenience to all communities. Thus, the Company plans to open approximately 700 new stores in 2018. |
| Sales and services revenue growth | The Company expects to continue delivering sales and services revenue growth as driven from contribution from new store and positive SSSG, which we forecast to grow in line with the projected economic growth in Thailand (GDP growth). However, this is subjected to other factors including inflation rate and private consumption growth. |
| Gross profit margin | Gross profit margin advancement is expected to continue on the back of our product strategy in order to cater to consumer demand. We also continue to drive higher sales participation of the higher-margin products in both food and non-food categories. |
| CAPEX | CAPEX is projected to be approximately Baht 9,500-10,000 million with details as follows (unit: million Baht) <ul style="list-style-type: none">• Stores expansion 3,600 - 3,800• Stores renovation 2,000 - 2,100• Investment in new project, subsidiaries and DC 3,100 - 3,200• Fixed assets and IT system 800 - 900 |

Please be informed accordingly.

Sincerely yours,

Mr. Kriengchai Boonpoapichart
Chief Financial Officer
Authorized to sign on behalf of the Company